PROPERTY FINANCE EUROPE

• European REITs • German non-performing loans (NPLs) • Institutional real estate portfolio investment • Mortgage securitisation, CMBS/RMBS • French office property • Distressed debt • German real estate banking • Special mortgage servicing • US real estate funds in Europe • Pfandbriefe/covered bonds • Paris SIICs •

Volume 1, Issue 10 | 12 September 2005

REIT legislation may contradict Rome Treaty, face court challenge - report

A new report prepared for the European Public Real Estate Association says some laws on Real Estate Investment Trusts (REITs) may contradict the EU's Treaty of Rome, and could soon be challenged in national or supranational courts.

The report, by the University of Amsterdam and Dutch law firm Loyens & Loeff, says a comparison of REITs regimes in Europe shows many contain elements that lead to a restriction of EU Treaty freedoms. "EU law does not permit many of these restrictions and it may simply be a matter of time before these impediments are challenged by taxpayers or by the European Commission," the report says.

Loyens & Loeff partner Ronald Wijs says tax barriers that countries seek to erect to protect real estate are in breach of individual economic rights as defined in the Treaty of Rome. "One of the most important rights is the free flow of capital for everybody in the EU," Wijs told the EPRA conference in Paris last week. "If you apply this to the REIT regime you see a lot of distortions across borders that are not in line with the free flow of capital."

The report notes that the European Court of Justice has made recent rulings ensuring that residents and non-residents obtain equal tax treatment in corporate dividend payouts. In this regard, a Netherlands-based REIT may be planning ECJ court action quite soon, though Dutch authorities have already signalled willingness to amend the current law.

EPRA Chief Executive Officer Nick van Ommen said a true common market for REITs in Europe can only be created, "if cross-border tax barriers are removed; if a certain 'tax transparency' is established." EPRA, which represents listed property companies in Europe, aims to prompt governments and interest groups to pay more attention to the EU law dimension of REIT regimes.

Wijs told PFE the evolution of new REIT legislation in the UK and Germany was being watched for its conformity with EU law. Lawyers believe it would be difficult for Germany to unilaterally declare payouts from potential G-REITs to be income from property rental and trading, and thus open to taxation at source. pfe

ThyssenKrupp portfolio sale seen as spark for German corporate sale-and leasebacks

ThyssenKrupp's sale of its apartment portfolio was a watershed in convincing domestic corporates to begin to actively consider sale-and-leaseback of their commercial property, says the co-head of Citigroup's newly-formed Global Real Estate division.

James Brent told *PFE* last week, "ThyssenKrupp was probably a critical turning point. This is heartland German industry." The deal, closed earlier this year, was being watched by bankers to see if political concerns arose about 'selling the family silver'. However, when trades' unions were understanding, rating agencies upgraded the firm, the share price rose and significant liquidity was freed up for core activities, corporate Germany realised this was a net positive. Firms and governments are now looking harder at sale and leaseback of commercial real estate. SEE PAGE 6

PFEUROPE.DE

Onward and upward! Now we are back in the swing of things. Looking at the situation of the mortgage market next, toward the end of this month with Eurocatalyst in Rome, as well as a date with IMN's German and Northern European Securitisation Conference in Hamburg, incorporating a full day on non-performing loans. ***Property Finance Europe*** will be in both places in strength - which means a real, genuine printed copy of this edition for your files if you are there. Next issue in two weeks' time, 26 September. No more three-week breaks for us as in the lazy, hazy days of summer... not until the long month of November, that is.

Business Manager Charles Kingston is picking up the pace of gathering subscriptions this month so please consider supporting *PFE* efforts to bring you the news and analysis you need on real estate finance on the Old Continent. Many have been the positive responses from continental companies and associations pleased to see a publication that goes out of its way to tell the world what he/she/it is doing. Put us on your press release distribution list to speak to global investors. We guarantee at least 2,000 notifications of PFE every two weeks to property investment institutions, and our lists are growing daily.

The first items in this issue are based on speeches and contributions made in the European Public Real Estate Association (EPRA) Annual Conference in Paris on Thursday and Friday of last week. EPRA is a not-for-profit body established under Dutch law in October 1999, based in Amsterdam. Its members include most leading stock exchange listed real estate companies, and investment institutions in Europe.

Listed real estate outperforms but is neglected by investors - EPRA chairman

Listed real estate has outperformed direct investment in property by around six percentage points per annum for around 13 years but remains a relative unknown quantity to international capital markets, the chairman of European Public Real Estate Association (EPRA) Serge Fautré said.

Fautré told the EPRA annual meeting in Paris last Thursday that European listed property market capitalisation has been growing by a steady 9% since 1995. Despite this, European pension funds have an effective average allocation to real estate of only 7%, well below their declared target allocations of 15%. As well, capital flowing to direct real estate substantially outweighs that into listed property by a factor of 4:1.

"I consider that to be and to remain a challenge for all of us," Fautré said. Performance of the EPRA indices of listed property companies has been very strong, and is up 67% since January 2004. But he asked, "Is there a bubble? Is there a true operational excellence in our industry or are our stock prices solely the reflection of declining interest rates?"

Fautré, also Chief Executive Officer of Brussels-based property manager Cofinimmo, said the introduction of Real Estate Investment Trust (REIT) structures in Europe has helped the effective tax rate of real estate companies as a whole to decline, but tax efficient vehicles still represent only 27% of the total European real estate market capitalisation.

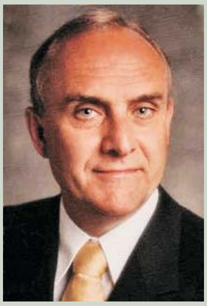
The addition of permitting legislation in the UK and Germany would help. "Only with the addition of the two big ones will we have a European sector of a scale equivalent to the US REIT sector," he said. This is one of our goals. The French showed in 2003 that it can be done swiftly."

Apart from fresh investment in indirect real estate, the maturity of private property vehicles in the coming five years would bring another €70bn in capital into the market, Fautré predicted.

Commenting later in the meeting, Stephen Vernon, Chairman and Chief Executive of the Dublin-based Green Property, noted that the EPRA conference 2005 had a different mood than it did three years ago. "We have a resurgent quoted sector in Europe, and not only in France where SIICs (REITs) have been a huge success," he said. "This is creating an interesting scenario going forward." pfe

---

The European Public Real Estate Association (EPRA) may sound to you like the Old Continent's Society for the Preservation of Ancient State-owned Monuments but it most patently is not. Public in this sense has nought to do with 'state-owned'. Quite the contrary: EPRA has suddenly found itself with one of the most challenging and thoroughly private-sector mandates of all real estate associations in Europe - to represent, promote and lobby on behalf of property companies listed on the continent's public stock exchanges. Judging by the CEO-packed and attentive 6th annual meeting Thursday and Friday in the swish surroundings of the Intercontinental Le Grand in Paris (not the one near Place Vendome sold last week to a unit of the Singapore Investment Corporation), EPRA is succeeding. In spades.



But it was not always like this. Just five years ago, EPRA was bankrupt. Not enough interest, not enough listed companies in Europe, not enough members, not enough cash in the bank. What to do? Bull by the horns' time: It asked the few members it had left to have faith, stump up two years' annual fees in advance. And it gave a free hand to new CEO Nick van Ommen to reform, refurbish, and revitalise. EPRA instituted indices, chatted up anyone in Europe who would give it the time of day, and a bunch of non-Europeans who were at the least intrigued - notably the US 'R-word' association NAREIT. And EPRA was in the right place at the right time. It caught the wave of the property revaluation in European front runners UK, France and Spain, the building wave swelling toward disintermediated real estate markets - most notably characterised by the 'R-word'. REITs. Under the capable guidance of Fraser Hughes EPRA now issues, from its Schiphol base, regular performance updates on a universe of European listed companies that, like the final frontier itself, is expanding fast in all directions. Not the speed of light perhaps, but breathtaking nonetheless.

*****

Much of the talk in Paris was bubbly. No, not necessarily jovial, but worrying about valuation bubbles. Peter Lowy, chairman of the Australian Westfield Group, the largest global REIT with a portfolio of around $34bn in shopping centre assets, said as much from the stage in the final session. "There's such a weight of money coming down the pike in Australia that we were forced to go global," he told the meeting. Most listed companies have seen their shares surge massively over the last 12 to 18 months. One chairman of a UK listed company commented quietly that Westfield's 75% premium to NAV cannot be anything but a bubble. The best managed companies with perfectly performing assets might command 10%, 15%, even 25% over NAV, he opined. But 75%?

Fund managers who thought the universe ended at industrial equities and debt, plus, maybe derivatives on the above, have discovered real estate. EPRA's Best Performer Large Cap Award was won by the UK's Quintain Estates: total return in local currency of 66% in 2004. Its Small/Mid Cap Award was taken by Town Centre Securities, a small shopping centre operator in northern England: total return of over 63% in 2004. Huh, that's nothing! The best performer in Germany has seen its share price rise SIXFOLD in a year, and is called Vogtländische Baugesellschaft. All right, it isn't. Vivicon was sensible enough to change its name from the, for non-Germans, unpronounceable version at its 2001 listing on the Frankfurt exhange. Metrovacesa is up 62% since its capital increase earlier this year to finance the Gecina acquisition. Ancient State-owned Monuments these companies are not!

*****

Allan Saunderson, editor@pfeurope.de

US real estate capital looks abroad but cap rates at home still near early 1990s

US institutional real estate investors are increasingly looking abroad even though the rapid fall in capitalisation rates in their domestic market has brought them down no lower than levels they reached in the early 1990s, according to Tony Ciochetti, professor at the Massachussets-based MIT Real Estate Center.

"Everybody in the US complains that cap rates are too low, just too low," Ciochetti told the EPRA annual meeting last week. "But really they are only where they were in the early 1990s, and in fact yields offered on retail and office assets are 40 to 50 basis points higher than the 12-year average."

Ciochetti identified four kinds of risk profile for real estate capital investment: core, core-plus, value-added and opportunity. All were looking for investment either to tie in yields above those offered on sovereign bonds, or to exploit price or value anomalies. The search for assets and yield was exacerbated by the $60bn-$100bn underfunding in US corporate pension funds.

"There is a huge wash of capital looking to be invested in the US real estate markets," he told the meeting. Because of a perceived lack of investment assets at home however all these were now seeking opportunities offshore. US capital is heavily involved in non-performing loans in Japan, Korea and China but certainly all the segments of the property market in Europe. pfe

European property investors seen diversifying risk via listed companies

Investors in European property are increasingly looking to indirect forms via listed companies to achieve diversification that is only possible in the case of direct investment with a portfolio of around €500m, said Nick Tyrrell, Chief Real Estate Analyst at JP Morgan Fleming Real Estate Europe.

The advantage of direct real estate investment is having full control over strategy, but the disadvantage is very high exposure to individual asset risk. There is even more risk if the investment is cross border, a Dutch investor taking a position in a shopping centre in northern Italy, for example.

"To avoid this you need to have single portfolio holding of over half a billion dollars," Tyrrell the EPRA annual meeting.

"You probably need 30 or 40 properties to get close to offsetting market risk and to say I now have a fully diversified portfolio," he said last Thursday. "This is one of the main reasons why investors are moving away from direct investment and moving to the listed and the private equity side."

Indirect property investments via the stock market also give access to expertise through company managment, liquidity to be able to take capital out if needed, and tax efficiency if the national jurisdiction has a Real Estate Investment Trusts (REITs) structure.

Tyrrell estimated new property investment in Europe at more than €100bn annually, and half of this is now cross-border. The investor has to decide between equity and debt investment, public or private markets, closed or open-end vehicles.

He then also has to overlay the strategy that meets his needs such as single- or multiple-specialist, or diversified vehicles, and decide on levels of leverage and, sometimes, also currency risk.

Of all capital invested in European real estate, 53% is principal lending, of which commercial lending comprised the bulk. On the upside, this provided only the interest servicing payments, while the lender also carried the downside real estate risk. Indirect debt investments do not really yet exist in Europe. Even though mezzanine debt funds are coming they are not yet widely established and in any case deliver close to an equity risk.

Tyrrell estimated the equity held in European real estate, including all listed

Table: Housing units by year of construction, Germany

In 1,000s	Germany	Fmr west Germany	Fmr east Germany & Berlin-East
Dwelling units, total	38 690	30 988	7 702
Until 1900	3 267	2 224	1 044
1901 - 1918	2 629	1 824	806
1919 - 1948	4 971	3 524	1 447
1949 - 1978	18 095	16 024	2 070
1979 - 1986	4 190	3 237	953
1987 - 1990	1 237	915	322
1991 - 1993	4 004	3 001	1 003
1994 or later	297	240	58

Source: German Federal Statistics Office. Data for 2002

Table: Households by structure and type of use, Germany

	Total	Owner-occupier	Main-tenant	Sub-tenant
	In 1000s		In %	
Households	35 872.9	42,2	55,5	2,3
1 person	13 147.6	25,3	69,8	4,9
2 persons	12 194.5	48,5	50,5	1
3 >	10 530.9	55,9	43,4	0,7
with reference person				
under 30	3 520.5	7,2	84,3	8,5
30 - 59 years	19 188.1	43,2	55	1,8
60 yrs >	13 164.4	50,1	48,4	1,5
with a monthly household net income of				
under €500	953,5	16,3	69,4	14,3
€500 - €1300	9 480.2	24	71,9	4,1
€1300-3200	16 654.1	43,4	55,1	1,4
€3200 & over	4 648.3	68,1	31,5	0,4

Source: German Federal Statistics Office. Data for 2002 and direct investments, at around €2.1tr, and said it was much more important than debt financing. The total public listed property market as defined in the EPRA index had grown from €45bn to just under €90bn now, and the REITs proportion had grown fast in the last couple of years due to their introduction in France. However it is still only a fraction of the size of the private equity vehicles sector as defined in the INREV universe at €360bn.

In 1993, he noted, the public quoted real estate market in the US was, at around $30bn in value, smaller than the European sector at the time. Now it is around three times the size due to the explosion of REITs in the US during the late 1990s.

Tyrrell said a new type of fund structure is emerging, semi-open ended real estate funds, which have a diversified asset base. "If there is a key word to all of this it's 'choice'," he said. "The choices facing investors is real estate are larger than ever before." pfe

PROPERTY FINANCE EUROPE

Publisher
Rose Advisory Ltd,
Manufactory House
Bell Lane
Hertford,
Herts SG14 1BP
England

Operating Office
c/o easetec
Hainer Weg 13 – 15
D-60599 Frankfurt am Main
Germany
Tel. +49 (0)69 962448- 0
Fax +49 (0)69 962448-90

Editor
Allan Saunderson
editor@pfeurope.de
Cell +49 (0)172 672 3938

Business Manager
Charles Kingston
business@pfeurope.de

Internet / Advertising
David Jayne
webmaster@pfeurope.de

Administration
Gaby Wagner
office@pfeurope.de

Sector Advisors
Iain Barbour (Commerzbank) * Wolgang Barchewitz (legal adviser) * Martin Braun (Cushman Wakefield * Martin Damaske (Hypoport) * Clarence Dixon (Crown Mortgage Management) * Hugo Doswald (DG HYP) * Kingsley Greenland (DebtX) * Raffaele Lino (DTZ Investment Advisers) * Georges Ruchti (easetec services) * Philip Rutovitz (easetec) * Dr. Dieter Wermuth (Greater Europe Fund) * Thomas Ziegler (Reporting Online)

PROPERTY FINANCE EUROPE is published on the second and fourth Monday of every month from the easetec offices in Frankfurt am Main. PFE is independent of investing or selling institutions. Information it contains is under copyright protection and is based on sources believed to be reliable, though their complete accuracy cannot be fully guaranteed. Neither the information in PFE nor the opinions expressed constitute or are to be construed as an offer or solicitation of an offer to buy or sell investments. PFE accepts no liability for actions based on the information herein.

ISSN 1748-8281 (printed copy)
ISSN 1748-829X (online version)

Private Equity and listed property interchange seen intensifying

The interchange between Private Equity and Opportunity Funds and stock exchange property vehicles will become more intensive as the European listed sector grows, and the two trends going forward are specialist real estate players and the huge potential of Germany, says Morgan Stanley Managing Director John Carrafiell.

Speaking in a panel discussion on exits from Opportunity Funds, Carrafiell said these private capital vehicles would impact the listed property sector in three new areas in Europe in the next few years: exiting investments via sales to existing publicly listed companies, building listed companies that the funds control, and investing in existing publicly listed companies that already own interesting portfolios.

But this worked both ways. Private Equity Funds will also take listed companies off the stock exchange for restructuring. "There's a lot of interchange between the listed and the opportunity fund sector," he told the meeting. "I also don't see how public to private can be prevented."

Carrafiell, who is head of Morgan Stanley's European Real Estate Group, said private equity would focus in the next few years on listed companies not necessarily part of the EPRA index, i.e. not among the biggest and most widely capitalised. These are likely to be niche players, focused on nursing homes, home building, or high-yielding situations in other specialised areas. "It seems that if you understand real estate and have the skill base, this is an important complement, balancing the portfolio."

Germany's smaller listed sector is not yet of relevance but it is the largest property market in Europe and the value cycle is bottoming out. Opportunity funds are recapitalising property significantly, he said, and have probably spent over $20bn on non-performing loan and residential property portfolios alone. "If we get REITs in Germany, these investments will be reversed in," Carrafiell said.

Morgan Stanley has been involved in taking several firms public, including Italy's Pirelli Real Estate, Spanish builder Fadesa, and French real estate developers Nexity, as well as French commercial retail operator and developer Altarea.

Richard Powers, Co-Head of European Real Estate at Goldman Sachs, noted that private investors' interest in real estate has surged in recent months. The most recent fund raised via Goldman's Whitehall Funds subsidiary, which he heads, attracted very strong demand from private investors. The new fund closed at $3.8bn in size, of which Goldman itself invested $1bn.

Whitehall has done a number of public-to-private deals, Powers noted, including Westminster Health Care in 1999, and the Westin hotel chain subsequently sold to Starwood. But before the recent interest in real estate shares it was hard to use publicly listed companies as an exit from privately-held portfolios.

"Yield sells well today," Powers said. "To hold a hard asset that actually produces income is very attractive. This is very different from several years ago when interest rates were high and the yield on real estate was not competitive."

Mark Newman, Global Chief Investment Officer for Lehman Brothers Real Estate Private Equity Funds, told the meeting that going public with private holdings is expensive, risky and time-consuming. It opens up the portfolio to public scrutiny and requires comprehensive reporting, while also dealing with the needs of minority shareholders and the potential of double taxation issues.

However, the emergence of Real Estate Investment Trusts (REITs) in Europe was an inevitable development. "It's hard to see that this is not the way to go and won't be adopted in most jurisdictions over time," Newman said.

Lehman acquired Nexity from the Vivendi Group three years ago, repositioned and refinanced it twice, Newman said, eventually taking it public in October of last year. Lehman sold out of 50% of its holdings in the initial public offering, and sold off the remainder into the market within the next six months. pfe

PFE COMMENT: Carrafiell and his real estate investment banking colleagues are really the 'heavy-hitters' in European property markets these days, achieving value in clever financing strategies to exploit the difference, essentially, between individual national property market and international capital market valuations. Here is precisely the point that Germany Property AG is missing entirely: the massive downward pressure on yields that has occurred in the last couple of years has changed the paradigm. With an overhang of global investment capital and a western world demographic pattern which determines that we - or our government or private representatives - need to finance our pensions, it is pre-programmed that any asset which can supply a return above sovereign bonds will be examined very carefully. If, as in Germany, capital valuations at at their base, it stands to reason their yields are highly attractive to institutional investors - on condition, of course, that renters are still paying regularly, but almost irrespective of the immediate outlook for capital gains.

Cost of capital should determine real estate investment strategy - LaSalle

Any institution investing in real estate should choose the strategy that conforms to its underlying cost of capital, and the wave of capital chasing yield means external investors have lowered expected returns to no more than 6-7%, according to Jeff Jacobson, European Chief Executive Officer for LaSalle Investment Management.

"For the sector to grow you have to access low cost of capital," he told investors at the EPRA annual meeting. While liquidity and growth in the publicly listed real estate sector has been good, it has not matched up to the performance of non-listed fund or direct property investment.

Listed companies in the EPRA universe are still only around one quarter of the value of unlisted firms, mostly funds, represented by the European Association for Investors in Non-listed Real Estate Vehicles (INREV). Around 69 property firms are listed in European stock exchanges, compared with 382 unlisted vehicles on the continent.

"The industry is awash with liquidity and most of it is not going into the quoted sector. We need to look at why," he said. "We have had some growth but it has mainly been through higher valuations and we haven't had a lot of new issuance. We are doing fine but we are not punching our weight compared to other ways that people invest in real estate."

LaSalle, part of the Jones Lang LaSalle group, manages around $30bn of real estate assets worldwide, and over half of this is in Europe. Some $5bn of its assets are invested in quoted real estate companies.

Its investors are mainly institutional, but the proportion coming in from high net worth individuals is growing, Jacobson said. Mandates are increasing from Australia, Japan and South Africa, with new institutions seeking investment in listed real estate markets. Europe will be a recipient of much of this money.

In its debt financing, LaSalle can borrow up to 90% of loan to value at rates around 5%, with the small remainder costing more, he said. "I still have a blended cost of capital of 6% to 6.5%. That is a very low cost of capital."

Jacobson sees the challenge for Europe as progressing fast in establishing Real Estate Investment Trusts (REITs) regimes. The tax efficiency of REITs reduces overall cost of capital and should allow listed property vehicles on the continent to benefit from the wave of money seeking such investments. "It increases the cost of capital if you don't have REIT-type rules," he said.

But good management teamsare also important. "You have to remember there is no right or wrong decision. You just have to make sure that the strategy you are pursuing is the strategy that will work within the cost of capital you are working with."

He also warned however that a huge amount of capital has been flowing into property for several years, which has given a better return than in every other asset class. Now, the liquidity surplus may be close to a bubble. "Everyone says 'I missed out on this over the last few years, I am getting in on it now'."

"The good news is that there is a lot of real estate that can be brought in to meet this appetite. Overall looking forward, I would bet on the chart that has real estate outperforming all other asset classes," Jacobson said. "Real estate has had an incredible run, and it is hard to see in the short term what will cause that run to end." pfe

Transparency, liquidity seen bringing capital into European listed property firms

The transparency and liquidity provided by stock exchange listed real estate vehicles should attract more capital into the sector in general, but this will be of less help to the large funds until or unless the establishment of Real Estate Investment Trusts (REITs) Europe-wide broadens the sector considerably.

That was the conclusion of an investor panel at the European Public Real Estate Association (EPRA) annual meeting last week.

Jussi Laitinen, Chief Investment Officer for Finnish pension fund Ilmarinen, said his company, which owns around €2.1bn of real estate assets, has a very conservative policy. The advantage of listed property investments lay in being able to shift the portfolio easily.

"Publicly quoted instruments usually have transparency, and we know if our money is being put to good or bad use," he said. "You have transparency of both the cost and also the corporate governance side."

Laitinen said he will be seeking such investment outside Finland soon since he

Table: Main tenant households by structure and rent, Germany

	In 1000s	Of which with mthly rent <€300	€300-600 (In %)	>€600	Av rent per unit In €
Total households	16 529	28	59,5	12,5	408
with 1 child	2 089	13,9	67,3	18,8	467
2 children	1 210	7,8	66,5	25,7	519
>3 children	405	5	62,2	32,9	563
with children	3 704	11	66,5	22,6	493
w/o children	12 825	33	57,5	9,6	384
With a monthly household net income of					
<€500	442	76,5	23,1	0,3	225
€500 - 1300	5 587	45,5	52	2,5	318
€1300-3200	7 861	18,6	68,2	13,2	420
>€3200	1 269	5,4	46,8	48	765
Citizenship of reference person					
German	15 170	28,4	59,1	12,5	407
Non-German	1 359	23,4	64	12,7	422

Source: German Federal Statistics Office. Data for 2002 has a mandate to reduce exposure to domestic property to 75% from the current 95%.

Tony Watson, Chief Executive of UK-based fund manager Hermes, owned by the BT Pension Scheme, told the meeting institutional interest in listed property shares had fallen in recent years due to the volatility of the returns and the adverse tax treatment. However, this could change. "If the property market became securitised, then there would be more allocation from funds like ours," he said.

Christian Rabeau, Chief Investment Officer at Paris-based AXA Investment Managers, agreed that liquidity and transparency are key, and that listed property vehicles should be able to supply this. "You need to know what are the underlying assets," he said.

For Roderick Munsters, head of investments at the giant Dutch civil servants' pension fund ABP, liquidity is less important since the size of the assets he is managing make stock exchange listing less relevant. ABP is Europe's largest retirement scheme and has some €157bn under management. Munsters said however that market listing brings other advantages in terms of clarifying corporate governance, accounting and reporting issues.

"There is so much money looking for yield that you are bound to see a rise of interest in European real estate," Munsters said. "What you should do is to make sure more product is available." However he doubted that ABP would allocate more capital to listed real estate in the near term since he sees it as too expensive right now. pfe

PFE COMMENT: It seems to us, and we said so at the meeting, that capital flow from major institutions into listed vehicles in Europe is also constrained by the immense diversity of real estate on the continent - property cycles anyway, but also all kinds of national jurisdictional issues such as real estate company legislation, existence of REITs, state of the domestic pension fund industry, level of national economic development etc. Because of different structural and macro-economic environments, real estate is not a standardised asset that can be easily compared across borders for equity investors, like automobiles, chemicals, luxury goods etc. In other words, the complexity of European real estate means investment is cost and time intensive. Greater fungibility will only come with an expansion of the base of listed companies operating in the segment, and also the comparative equity research devoted to it. The panel was not convinced however.

ThyssenKrupp apartment portfolio sale seen as watershed for German corporate real estate sale-leaseback

The sale by Germany's ThyssenKrupp of its residential property portfolio late last year was a watershed, convincing domestic corporates that their owned real estate can be monetised without raising political problems and sparking widespread sale-and-leaseback reflections for commercial property, says the co-head of Citigroup's newly-formed Global Real Estate division.

James Brent told *PFE* the reorganisation in Citigroup's global activities came precisely because of this and other structural changes rapidly taking place in European property markets. Brent and Marcus Giancaterino will run the new division, which Citi announced in early August.

markets. Brent and Marcus Giancaterino will run the new division, which Citi announced in early August.

"We are seeing rapid secular change in Europe," Brent said. "Vast tracts of real estate are changing hands. Effectively, we are seeing the public equitisation of real estate via the formation of public markets that we haven't had before in Europe." Governments and corporates are the sellers, and the public equity markets – particularly including the continent-wide move toward Real Estate Investment Trusts (REITs) – would make this more efficient.

Brent sees the opportunities improving alongside the prospects for clients and shareholders, and said better coordination inside Citigroup was needed to properly coordinate this. In terms of real estate banking volumes, in the first half of 2005 Citi was number one in M & A, public debt and public equity. "One swallow doesn't make a summer but we feel the business is very powerful," Brent added.

In Germany, Citi has been involved in advisory on the sell side of various kinds of major transactions, and in debt and equity financing on the buy side. It was the major financing power behind both the ThyssenKrupp deal, with Morgan Stanley as the purchaser, and also provided debt and took equity in the €7bn acquisition of Eon's Viterra portfolio by the UK opportunity fund Terra Firma.

"ThyssenKrupp was probably a critical turning point," Brent said. "This is heartland German industry and they took the decision to sell 48,000 apartments, the majority of which were built during the post-war reconstruction." Brent and other bankers were watching closely to see if significant political concerns would arise among the German population about 'selling the family silver'. However, when trades' unions were understanding of the deal logic, the rating agencies up-rated the selling company, the ThyssenKrupp share price rose and it freed up significant liquidity to devote to its core business, corporate Germany realised this was a net positive.

The absence of a political reaction was all the more surprising, considering the fact of a left-of-centre Red/Green federal government coalition in Berlin. "There was not much negative and a lot that was positive in it," Brent said. "In terms of changing the mindset, ThyssenKrupp really had a very strong impact."

As a result, corporates and governments are now looking ever harder at sales of residential holdings and also at the commercial real estate that they own and use. PFE information indicates that the state of Hesse has been surprised by the strength of the interest in its commercial portfolio put up for bid in late spring. Originally valued at €800m, it is likely to bring in more than €1bn.

Hamburg has now also announced sale of a large city-state owned and used commercial real estate portfolio and there is strong speculation that Allianz-Dresdner and also Daimler-Chrysler are close to offering sale-leaseback commercial portfolios to the market. "People are more cogniscent of the hidden value on the balance sheet and the alternative uses that can be made of the capital," Brent said. "The capital, equity and debt chasing these opportunities is huge." pfe

PFE COMMENT: This is a highly interesting analysis. It encompasses, interestingly enough, many of the fundamental elements that motivated us to start Property Finance Europe on that fateful Monday April 11! We also judge the political perception to be not only correct but highly astute; to this extent, the most important genuine shift in the German property environment from any change of

government after the federal election next week will be the further distancing of the left-wing political lobby from its influence on Berlin policymakers in the case of foreign capital investing in government and corporate assets. It is high time that corporate Germany took the liquidity out of their owned-commercial property in sale-and-leaseback and put it to use to invest in their core businesses and try to stay competitive. No reason at all why governments should not do the same. The taxpayer needs lean and efficient government; dealing professionally with public sector real estate is just one aspect of this.

PROPERTY FINANCE EUROPE - *BULLETIN BOARD*

Monday-Tuesday-Wednesday 26-28 September 2005
EuroCatalyst 2005: Live from Rome

In addition to an ongoing dialogue to capture opportunities through the entire value chain of European mortgage markets, EuroCatalyst Live from Rome features a day on Italy's emergence onto the global stage in light of recent covered bond legislation.

Speakers include: Michael Coogan-Council of Mortgage Lenders, Stephen Knight- GMAC-RFC, Tim Skeet-ABN Amro, Matt Gilmour-Infinity Mortgage, Mario Cortesi-Citigroup, Enrico Cantarelli-Italian Treasury, Sandro Cocco-Banca Intesa, Alan Boyce-Soros Group, Todd Groome-IMF, Harsha Shewaram-European Commission, Ferdinand Veenman-GMAC-RFC, Erik Urskov-Nykredit, Clive Wood-Royal Sun & Alliance, Liam Coleman-Nationwide, Trevor Pothecary-Mortgages Plc, Stuart Jennings-Fitch Ratings, Thomas Kretschmar-Hypoport, Bernhard Scholz-Münchener Hypothekenbank, Joerg Wulfken-Mayer Brown Rowe & Maw, Johannes Luef-VP Denmark, Tobias Just-Deutsche Bank, Julian Callow-Barclays Capital, Louis Hagen-Ass. of German Pfandbriefbanks, Rob Thomas-Council of Mortgage Lenders. More information at www.eurocatalyst.com.

*****

Wednesday 28 September 2005
First European Securitisation Forum Investors Seminar on Securitisation Analysis & Pricing, London

The European Securitisation Forum has organised the first Investors Seminar on Securitisation Analysis and Pricing at 15:00 at the ESF's Conference Centre in London. The programme includes an introduction on the ESF Investors Committee's activities and projects, a first session on ABS/MBS consumer loan analysis and a second session on CDO analysis. The seminar is free, and is open to all qualified investors. To register, contact Marco Angheben at ESF. More information at www.europeansecuritisation.com.

*****

Wednesday-Thursday 28-29 September 2005
German and Northern European ABS including the inaugural Summit on German Non-Performing Loans, Hamburg

Information Management Network (IMN) is organising its autumn conference on German and Northern European Asset Backed Securitisation, including its first Summit on German NPLs.

Speakers include: Michael Weller-Clifford Chance, Hans-Jürgen Fritz-ABN Amro, Markus Schaber-Deutsche Bank, Stefan Krauss-Hengeler Müller, Detlef Scholz-Moody's, Hugo Doswald-TXS, Matthias Renner-WestLB, Nicolaus Trautwein-Commerzbank, Susanne Matern-Fitch, Jens Rinze-Lovells, Torsten Althaus-Standard & Poor's, Dieter Glüder, KFW Group, Hartmut Bechtold-True Sale Intl., Ulf Kreppel-White & Case, Ulrich Lotz-Deloitte & Touche, Christoph Hultsch-Ernst & Young, Wolfgang Richter-Eylaw Luther Menold, , Bjoern Reinecke-Volkswagen Bank, Jens Lillelund Jørgensen-HSH Nordbank Copenhagen, Gunther Plohr-HSH Nordbank, Markus Reule-Royal Bank of Scotland, Andreas Schenk-Württemberger Hypo, Katie Hostalier-Commerzbank, Dagmar Schemann-Teuber-ABS+MBS Consulting, Usman Ismail-Lewtan Technologies, Caroline Junius-FSA. More information at www.imn.org.

*****

Thursday 29 September 2005
Les Echos 13th Annual Conference on real estate investment in Neuilly sur Seine

The 13th annual conference will focus on the most successful strategies in the commercial property sector and the positioning of investors in regard to the opportunities on offer.

Speakers include: Maurice Gauchot-CB Richard Ellis Bourdais, Laurent Ternisien- IPD France, Philippe Tannenbaum-Eurohypo, Paul Koch-ING Real Estate, Jean-Francois Ott-Orco Property, Joaquin Rivero Valcarce-Metrovacesa, Pierre Vaquier-AXA REIM France, Bruno Keller-Eurazeo, Eric Adler-Tishman Speyer, Alain Brochard-ASPIM, Anne Florette-RFF, Jean-Pierre Lourdin-Min. de l'Économie, Jean Luchet-Accor, Struan Robertson-Morgan Stanley. More information, email: achatellier@lesechos.fr

*****

Thursday-Friday, 29-30 September 2005
EPIC - European Property Italian Conference is organising its conference "Painting by Numbers", in Rome.

Speakers include: Carlo Borgomeo BAGNOLI FUTURA, Marco Causi COMUNE DI ROMA, Ugo De Bernardi CITYLIFE Massimo De Meo BENI STABILI, Maurizio Grilli CORDEA SAVILLS, David Ingram PROPERTY & PORTFOLIO RESEARCH, Jeremy Kelly JONES LANG LASALLE, Bill Kistler ULI EUROPE, Arjan Knibbe UBS INVESTMENT BANK, Pietro Malaspina SONAE SIERRA, Mauro Mancini AM DEVELOPMENT ITALY, Mauro Mancini METRO COMMERCIALE, Gianluca Marcato UNIVERSITY OF READING, Aldo Mazzocco BENI STABILI, Daniela Percoco NOMISMA, Carlo Petagna AGENZIA DEL DEMANIO, Marco Plazzotta RAS IMMOBILIARE, Massimo Ponzellini PATRIMONIO DELLO STATO. More information at www.epic.it.

*****

The PFE Interview: Jean-Paul Dumortier, French Federation of Real Estate Companies

Five new French REITs and market cap to double before deadline expires for reduced capital gains tax on corporate assets

The French Real Estate Investment Trust (SIIC) sector is likely to double in market capitalisation in the next three years to around €50bn, and the end-2006 deadline for corporates to transfer assets into them at reduced capital gains tax rates should create four or five new companies, says the president of the French SIIC association.

Jean-Paul Dumortier told *PFE* in an interview that the French REIT sector should grow from about €25bn market capitalisation now. "We expect between €5bn and €10bn in new SIIC creation during the next 15 months, and also some assets to be brought into the market by funds." Small companies would also bring properties into existing SIICs, probably some of them before the end of this year.

FSIF's Jean-Paul Dumortier says SIIC market cap to double by end-2006

Dumortier is head of the Federation of Real Estate Companies (Fédération des Sociétés Immobilières et Foncières, FSIF) which, in 2002, was instrumental in lobbying lawmakers to introduce legislation permitting REITs (Sociétés d'Investissements Immobiliers Cotées, SIICs). The move made France the first large European country to introduce the untaxed, listed property holding vehicles. The Netherlands and Belgium already had such regimes.

The French REIT experience is widely seen as a huge success, revitalising the listed sector to the point of bringing, in the last few months, a large share price premium above net asset value (NAV) rather than the historical discount. By providing tax efficient exits for commercial and residential property owned by governments and corporates, the creation of tax-free SIICs also boosted the value of French real estate.

Partially because of the experience in France, governments in Germany and the UK have for the last 18 months been actively discussing REIT-enabling legislation. Either or both are expected to act soon.

In the first years of the new millennium, French property companies had been the poor cousins of industrial listed groups, largely neglected by equity investors. This, rather than the ability to attract foreign capital, was the primary motivation for moving ahead with establishing REITs in France.

"The situation at that time was not very good for the property companies in France," Dumortier said. "Their stocks were trading at discounts to the assets, delistings were taking place, balance sheets were intransparent, and board members of the various firms were no longer sure that their business model could work."

FSIF realised that two key elements were essential for success: SIICs had to be obliged to distribute all profits and immediately become a separate asset class; secondly, double taxation had to be avoided - levied either at the level of the company or from the shareholder investing in it, but not both.

Dumortier said he and FSIF colleague Dorian Kelberg had full support of government and legislators for the SIIC innovation. The support of two figures was key: Alain Lambert, then Minister for Budget in the Pierre Raffarin government, and Senator Philippe Marini, a specialist in real estate matters.

"We were all convinced that if we had a very strong instrument with a strong equity position we could get all real estate companies financed in a proper way, avoid volatility and generally make the sector more professional," he said. Private equity, using bank lending and separate developers, had significant drawbacks. Banks were not, for instance, always sufficiently up to date with events in the property market.

Did Dumortier expect such a positive result? "We didn't expect it to happen so quickly," he said. "We expected a success but not that the discount to NAV would disappear and such a large premium build up." But low interest rates, general global asset volatility, and the worldwide search for yield also played a strong part.

Another consequence has been the growing interest in tax-free French SIICs from nearby jurisdictions without a similar vehicle, particularly Spain. Last year the Madrid-based Colonial group took over Société Foncière Lyonnaise. In spring this year, Metrovacesa took a majority stake in the second largest French SIIC, Gécina. Now the sector is discussing how this can be worked out on a European Union level.

There is, for instance, nothing to prevent a German company buying a French SIIC and investing in German property through it. Bilateral tax questions are however not exclusive to the real estate sector, Dumortier notes. Partly because property remains within the national geographical area and does not move, it cannot be considered a strategic asset. Governments need not fear foreign ownership.

March 2007 is the deadline for corporate real estate transfers into SIICs in order to qualify for the halved tax rate on the revaluation gains from book to market price. It means companies have to move assets off balance sheet during 2006. Should this be extended? "We have to see at the end of 2006 what will happen," Dumortier told PFE. "If it's of interest we could ask for this to be postponed." pfe

New €2bn pan-European opportunity fund sees France, Italy property offering value again

The London-based manager of a new €2bn pan-European real estate opportunity fund says property investments in France and Italy are beginning to look more interesting again, Germany offers value as a recovery play but is over-taxed, and eastern Europe is frenetic but provides potentially good returns.

Charles Graham, investment manager for Europa Capital's new Europa Fund II, told PFE the group's first Europe fund stayed away from France, seeing it as overpriced, but the cycle was looking more positive now. "In the first of the pan-European funds we did nothing in France and Italy," Graham said.

"This time we might be more active. We had an opportunity fund in 1997 that was specifically investing in France but the market was getting hot and we pulled out. But German funds kept pouring capital in so prices stayed buoyant anyway. From the investment view, the French market is strong, but from a tenancy view the picture is less rosy."

Europa Capital was set up by Sir John Beckwith and a number of colleagues from his former company, London & Edinburgh Trust plc. In September 2003 Beckwith sold his 50% Europa Capital stake to the principals.

Europa Fund II is around twice the size of the first Europa Fund launched in 2002. At the final closing, it was oversubscribed at the maximum level of €450m, well over the €300m originally sought. With gearing, total gross assets are aimed to reach €2bn. By final closing, five transactions valued at €500m had already been completed.

"The first fund was around 65% leveraged," Graham said. "This time it will probably be a bit more because we are focusing on investment property, something in the 70-75% area."

Europa Fund II has already bought into Avery LP, which owns three UK income producing shopping centres - Imperial Place, Borehamwood, a four-building UK office investment with value-added potential - Eiffel Square, Budapest, a prime office development project in central Pest - CityPoint, Warsaw, a large distribution park - and Media Park, Hilversum, a leading Dutch media park with significant additional potential.

Some 35 investors from 14 countries provided the equity capital for Europa Fund II, with 60% originating in the US and the balance from Europe, Canada, Australia, the Middle East and Asia. They included public and private pension funds, university and other endowments and foundations, as well as family offices. The management team has also invested.

"Most of our previous Europa Fund investors repeated, 're-upped' in the jargon of the business," Graham told PFE. "We found that a growing number of investors are looking to invest in Europe. But our size of fund definitely suits the medium-size investors with, say, €10-25m in capital."

The latest fund is looking at four to five investments in central and eastern Europe and at opportunities in Germany, where Europa Capital already owns commercial properties in Stuttgart, Boblingen, Neuss and Hamburg. "The issue at the moment is getting capital out … but we are seeing opportunities in most of the markets in Europe."

In Germany, he said, "One of the problems is tax. You pay more tax there if you turn a profit than in most EU countries. But we still feel that there continue to be opportunities, and there is really no dominant market in terms of the cities."

Europa Fund II is the latest in a number of similarly large Europe property funds closed this year, according to the Financial Times. US fund manager Apollo set up its second European fund and plans to spend €2.5bn on European real estate. Morgan Stanley plans to spend €3bn this year via the partly owned Canary Wharf group, and other banks are close to launching multi-billion vehicles. pfe

Home loan bank of the future seen needing efficient, internet-aided processes

The value chain in German residential mortgages is fast breaking down, and margins being currently earned are so thin that the bank of the future will be obliged to seek efficient execution throughout the process, particularly using Internet, says the chairman of Hypoport AG, a leading German web-based mortgage platform.

Thomas Kretschmar told a seminar last week that the present residential mortgage margins being earned by German banks - subtracting refinancing and all other costs from credit rates - were not much above 30 basis points for mortgage payouts of around 60-70% of value (LTV). While, in 2003, these rose toward 70bp at around 100% LTV, the intense competition in the German mortgage market coupled with, until recently at least, subdued demand had depressed margins into the low 40bps even at high payout ratios.

Many banks had pulled out of home loan financing altogether, particularly with more stringent equity capital ratios coming in Basel II regulations. But even with less supply, margins were unlikely to rise close to 70bp even at high loan payout ratios. "I don't think we will see it here in Germany again," Kretchmar said.

Banks that have pulled out of new home loan business are mainly those required to refinance via capital markets. These include Aareal, AHBR, Commerzbank, BerlinHyp, Deutsche Bank, DG HYP, Eurohypo, Hypo Real Estate and HypoVereinsbank. By contrast, financial institutions building presence in residential mortgages are those with broad - and cheap - savings deposits bases, or strong and efficient distribution networks. These encompass names such as Postbank, ING Diba, Wüstenrot Hyp, WL Bank, MHB, PSD-Banken and GMAC RFC.

"At the current margin level you can't expect banks of any significant size to come into the market," Kretschmar told the seminar. "Those that come in at all will be banks that can refinance via savings depositions and which use efficient cross-selling channels."

The net result will be the increasing significance in Germany of independent financial brokers, some of which should be able to achieve annual new business volume of over €1bn. The number of large institutions offering home loans in Germany would diminish to between 5 and 10. Small niche players would increasingly enter the market, making the boundaries between brokers and banks increasingly hazy.

Hypoport, through its Europace platform, expects to reach a record monthly volume of €800m in home loans originated this month, surpassing even the prior peak of €700m in June and nearly tripling monthly volumes seen at the start of 2005. Company officials said total annual volume transacted on the platform this year should reach €6bn.

Company Director Ronald Slabke also announced a shift of strategy. Hypoport would widen the assets possible to be processed on Europace into car loans, consumer credits and, eventually, all other types of financial products. He also announced a change in the company logo to "The Finance Integrator", dropping the word "mortgage".

Kretschmar said the brokerage community using Europace had achieved a combined market share in German home loans of around 7% and was likely to be the largest in the sector by 2010, outstripping the present savings and landesbanks sector leaders. pfe

Property derivatives seen making European real estate more fungible

Real estate in Europe could become a lot more tradeable if findings from a recent study recommending trading in property derivatives are taken up on a wide scale.

The UK-based Property Derivatives Interest Group (PDIG), to be launched this month as an offshoot of the Investment Property Forum, has identified considerable pent-up demand for derivatives instruments in property as opposed to the cash asset. The survey, made among 29 institutions representing £358bn of property assets, found that around 74% - managers controlling around £345bn - already had a mandate to use derivatives.

The Financial Times reported that the property derivatives market in Europe is currently small. Only about £600m in volume was traded last year, compared with some £50bn of direct real estate investment. Much of the trading comprised bonds with an element of embedded derivatives such as property income certificates. Many market professionals think it would be difficult to find counter-parties to a sector characterised heavily by a 'herd' mentality, according to the newspaper, and this could constrain volumes.

However, IPF Research Director Charles Follows said there was a huge divergence of views on the direction of the property market. In the UK over the next five years, forecasts ranged from annual returns between 6.5% and 11.2%.

Set up in 1988, IPF is one of the leading specialist property industry bodies in the UK, with a membership of around 1600 senior real estate professionals. It has also played a key role in the UK discussion over the composition of eventual legislation to allow Real Estate Investment Trusts (REITs). pfe

PFE COMMENT: The absence of counterparties is hardly a sound reason to expect that the growth of derivatives in real estate will be hindered. A 'herd mentality' may exist in some parts of the institutional market in the UK, where residential and commercial property are universally looking very toppish, but in the plethora of national markets and property cycles on the continent, we could very well envisage real estate derivatives taking off quite quickly. The main problem of course is the absence of cash instruments. However this too will change as European real estate over the next few years becomes more fungible.

French apartment rentals rise averages 3.5% in first half 2005

French apartment rental rates rose in the first half of 2005 by an average 3.5% nationwide, very slightly slower than the 3.9% recorded in 1H04, according to the national real estate agents group Observatoire National du Marché Locatif. However, the results in both periods remained well below the rise of 10% seen in 1H03.

The rise in rents of single-family homes slowed most significantly in 1H05, to a rate of 1.1% vs 4.0% in first half 2004 and 8.0% in the same 2003 period.

For apartments, the deceleration in the rental increase occurred throughout the country, with the exception of Paris where there was a quite spectacular acceleration to 5.2% vs -0.4% in 1H04 ONML said in a report.

Elsewhere, however, the deceleration in rental increases waas most pronounced in the mediterranean region - to a rises of 1.9%, down from 9.5% during 1H04. In the Rhone-Alpes area, rents rose by 2.1% in the period, compared with a 7.5% rise in the first half of 2004.

"In the case of houses, the landscape is more diverse," the report said. "Rentals are slowing down significantly in the west, the north and the east, and are even falling in the mediterranean area. However, they are picking up speed in the Paris region, in the centre of the country and in the south-west.

The absolute cost of renting an apartment in France amounted to an average €11.8 sq.m. during the first half of 2005, the report said. pfe

Some $100bn of additional real estate seen coming into European listed market within five years

Around $100bn of additional real estate could come into stock exchange listing within the next five years, and the overall size of the listed European market could move above $200bn driven by new issues alone, according to the European Public Real Estate Association (EPRA).

It said in a new report that the European market would, under these circumstances, reach about 30% of the size of the global market in listed real estate.

"Europe has a long way to go to catch up the established REIT markets in North America and the recent developments in the Asian markets," EPRA said. "However .. if REIT legislation is passed in the UK and Germany in the next 24 months, we can expect to see increased levels of activity and growth in the European market." These developments would offer investors a broader universe in a proven asset class.

"Given the expanding Asia/Pacific market, potential growth in Europe, and the increase in investor appetite in this increasingly global asset class, it would not be surprising to see the market capitalisation of the FTSE EPRA/NAREIT Global Real Estate Index step over the $1trn-mark in the next five years," the association said. pfe

Goldman's Whitehall Funds says agrees to take over Deutsche Real Estate from insolvent Agiv

The Goldman Sachs investment fund subsidiary Whitehall said it had agreed to purchase a 76% stake in Deutsche Real Estate (Drestate) from the administrator of the insolvent Hamburg-based fund manager Agiv Real Estate AG, and from the two landesbanks HSH and Bayerische Landesbank.

The purchase of 66% from Agiv was due to be put before a creditors' meeting last Friday. Whitehall will take over the debt and also the management company with around 40 staff.

The Immobilien Zeitung newspaper reported that, if approved, Whitehall will pay just €5m to take the majority stake in Drestate.

Its main creditors, also the two landesbanks owning the smaller equity block, had agreed to cancel €46m in outstanding loans. This brought total Drestate debt down to €343m from an original volume of €390m.

The Drestate portfolio consists of 28 commercial properties on long leases, valued at €207m, 17 packets of retail commercial real estate valued at €127m and other participations carrying a value of €56m. pfe

Frankfurt office, apartment prices continued to decline in 1H05

Office and apartment prices in Germany's banking centre Frankfurt am Main continued to decline in the first half of 2005, according to a report by the Frankfurt Property Exchange presented by the city's Chamber of Commerce last week.

Peak office rents held roughly stable around €31 sq.m., while apartments in medium to good locations brought rental income of €7-11 sq.m., the report said, according to the Immobilien Zeitung newspaper.

New owned apartments were attracting buyers at between €2,200 and €3,800 sq.m., with older dwellings selling for €1,500 to €2,500.

Detached single-family homes were selling in 1H05 for between €350,000 and €830,000 in the Frankfurt city area, while home building lots cost between €350 and750 sq.m. pfe

Berlin-based housing company announces intention to form REIT with apartment portfolio when possible

The Berlin-based housing company IMW Immobilien AG has become one of the first to announce it will convert to a Real Estate Investment Trust (REIT), once legislation is introduced, with a portfolio of 4,458 apartments it has just acquired.

IMW said it bought a 94% stake in Prima Wohnbauten Privatisierungsmanagement GmbH, which comprises 27 properties containing the apartments which have combined floor space of 280,000 sq.m.

Mainly located in the Berlin suburb of Lichtenberg, the apartments return an annual combined rent of €17m. Over the past eight years, capital expenditure has realigned and upgraded the portfolio.

Financing for the acquisition was structured by Eurohypo AG, and IMW gave no details of the purchase price.

It said in a release however that further acquisitions of residential property were planned, building a portfolio that would be floated on the stock market in the event of enabling REIT legislation being introduced. pfe

PFE COMMENT: Here is a case in point on the standard yield play theme. My sums assume that the price paid was no more than E800 sq.m., and quite possibly less. But at that price, the portfolio cost E224m and, with total rental income at the stated E17m, the apartment rental return averaged a gross E3,813 per annum per unit. This gives a gross yield of 7.6% and a net yield probably around 6.5% once capital expenditure, upkeep etc is netted out. As LaSalle's Jeff Jacobson noted earlier in this PFE issue at the EPRA conference, this is an entirely adequate return for most investors these days, and does not take into account any requirement for capital valuation upside. If residential prices rise as well over the next two years, which we think is a very strong possibility, the deal becomes even better. IMW, in any case, can take this onto the stock market with or without a REITs regime, and achieve an international capital market valuation that is bound to be well above the current market value in Germany.

16 German building, property associations plead for greater political consideration

A group of 16 German associations from the construction and real estate branches have made a plea for the branch to receive stronger political consideration by the next government.

In a combined paper, the associations said that only stronger consideration of the sector interests would allow the macro-economy to genuinely recover. Continued neglect by Berlin and state governments implied that any political moves to spark a rebound would fail.

The three main demands of the associations are: (i) the integration of owner-occupied apartments into the state-supported old-age care system, (ii) the retention of the support programs for new construction in general, and (iii) the retention of attractive and stable tax environment for residential home purchasers.

The group consists of 10 organisations from the building materials branch, the Main Association of the German Construction Industry, and the Federal Association of Free Working Groups in Old Building Renewal and two architect associations.

Separately, the German arm of the Royal Institution of Chartered Surveyers (RICS) and the real estate agents association IVD called for all political parties, after the federal election, to nominate speicalist spokespersons for the property sector. Until now, the property sector had mostly fallen into the responsibility of the transport spokespersons in the individual parliamentary factions, but this was inadequate, the associations said. pfe

More than 300 bidders for Hamburg state sale-and-leaseback portfolio

Following the unexpectedly strong sale-and-leaseback request for tender by Hesse, the city state of Hamburg has also encountered much greater interest in the sale of its state-owned commercial property than it had expected.

Hamburg said more than 300 domestic and foreign buyers had announced their interest in bidding in the first phase of the offer. Apart from banks and insurance companies, private individuals were also among the bidders.

It has closed the initial phase of the tender offer for its first portfolio which comprises 39 city-state-owned properties to be sold together, with the exception of five premium properties in attractive city centre locations that can be bid for individually. Bidders had until last Monday to submit their offers.

In total, Hamburg intends to sell around 110 city-state owned properties in two separate tenders, combining commercial floor space of 380,000 sq.m. The second tender offer is scheduled for the start of 2006. The majority of the properties will be sold in sale-and-leaseback transactions, and the city anticipates achieving total proceeds of over €1bn.

The sale is being handled by a consortium comprising Ernst & Young, the mortgage bank HSH N Real Estate, and the private bank Sal. Oppenheimer. pfe

WestImmo doubles new credit business as new chairman confirmed in office

The mortgage bank subsidiary of Westdeutsche Landesbank Girozentrale (WestLB) said new credit business nearly doubled in the first half of 2005 to €2.2bn, boosted by a strong rise in foreign commercial property lending to €1.2bn from €500m in 1H04.

Westdeutsche ImmobilienBank (WestImmo) said in a press release that higher earnings in capital markets business combined with a significant lowering of loss provisons boosted profit after provisions to €104.8m vs just €15.6m in 1H04.

Lending in the domestic market rose by 49% to €606m in 1H05, with private client lending up 30% at €414m.

The bank also announced that Hubert Beckmann would officially take over as chairman on 1 October, succeeding Dieter Groh who is leaving the bank on mutual agreement at the end of September. Beckmann has headed WestImmo on a provisional basis since November 2004. pfe

Spain's Metrovacesa boosts 2005 guidance to 42% net profit growth

Acquisitive Spanish real estate company Metrovacesa announced that it had upgraded its 2005 net profit outlook to a range of €330-340 per share, which would return around 42% growth or

a €100m increase on 2004's €232m. The new guidance surpassed the previously announced forecast of €265m for the full year 2005.

In a release, Metrovacesa said net income in first half 2005 grew by 41.2% to €185m. It completed the acquisition of 68.54% of the French real estate firm Gecina for €3.8bn, and the latter, from March onward, contributed €15.7m to group net profit in the first half.

The €1bn rights issue in July, mainly to fund this, was supported by shareholders and fully subscribed. Metrovacesa noted that, since the capital increase announcement, its share price has appreciated by 62%.

In 1H05, the group said it had made investments of €541m and asset disposals amounting to €247m. The average margin in its housing development activities increased by 33% compared to 1H04, and commercial pre-sales were 23.4% higher. For the full year 2005, Metrovacesa said it expected 30% growth in housing development sales. pfe

PFE COMMENT: Here is a company taking full advantage of European and global investors' growing appetite for listed property assets, drawing down capital from the equity market to fund a fast and fairly furious international expansion. It may well be that the Spanish listed real estate sector is relatively small in size currently, but it truly makes up for this with its entrepreneurial spirit. Metrovacesa's takeover of Gécina earlier this year was a coup that reached to the heart of the French real estate establishment, cleverly constructed to be acceptable to both the target's owners and the Spanish group's present and future investors. Legislating capital market authorities and property institutions alike in Germany, France and Italy need to take good note!

HVB Group reports drop in 2Q05 net profit but return on equity improvement

HypoVereinsbank reported that second quarter 2005 group net profit fell 31.5% to €230m, though return on equity after taxes, after adjustment for goodwill amortization, climbed to 9.7% from 5.4% at June 30, 2004.

Pre-tax return on equity increased to 13.5% from 9.0% in the second quarter, and operating profit declined to €412m compared with the above-average result generated in the first three months of €548m. The operating result in the first half as a whole rose to €960m from the €666m posted in 1H04.

The Munich-based group has been battling with bad debts for years and the spring announcement of the merger with Italy's Unicredito came in response to the poor shape of its balance sheet. It spun off the Hypo Real Estate bank in a flotation in winter 2003, to take a large proportion of non-performing loan assets out of its own balance sheet.

However, analysts still viewed HVB as carrying around another €15bn in sub- or non-performing mortgage debt.

HVB said that for fiscal 2005 as a whole it continues to expect loan-loss provisions of approximately €1.3bn - which translates into a pro-rata €649m for the first six months, down 27.5% on the loan-loss reserves of €895m in 1H04.

In the second quarter, loan-loss provisions were €326m, virtually unchanged from 1Q05.

Second quarter net interest income improved by 6.3% to €1.493bn, and at the half-year mark stood at €2.897bn, which corresponds to a year-on-year increase of 5.7%, the bank reported in a release. Net commission income, at €764m in the second quarter, slightly surpassed the €757m of the first three months.

Own account trading, earning €101m in 2Q05, fell well short of the high €322m earned in the first quarter, and was down 5.8% in the half, at €423m. Administrative expenses rose by 1.4% in the first quarter to €1.623bn.

HVB Group Chairman Dieter Rampl said in a statement: "Despite a still sluggish economy, we are fully on track in our key income components. All in all, I am very confident after the first six months of the present fiscal year that we will realise our envisaged annual target." pfe

PFE COMMENT: The merger with Unicredito is far from being a done deal and not everyone in Germany is convinced of its merits. Firstly, it looks to many in the financial sector more like a takeover and a foreign bail-out than a merger of equals. Secondly, it has raised the ire of the private commercial and the public sector banking community alike. Unicredito is a agglomeration of Italian savings banks put together in the late 1990s by Alexander Profumo, its chairman. While the German SPD/Green government has consistently refused to consider any relaxation of the strict separation of the three-pillar private, savings and cooperative bank sectors at home, evidently a foreign public sector institution does not face the same constraints. This, understandably, is a red flag to the German private banks, and confuses the domestic savings and landesbanks. Now, HVB's majority-held subsidiary Bank Austria Creditanstalt - itself the result of a fusion of the two largest Austrian commercial banks a few years ago - has declared that while sees the logic of the 'merger' of its parent, it feels underinformed and will not recommend holders of its remaining free-floating equity to sell into the offer. HVB holds only 77.5% of BA-CA.

HCI fund issuer in stock exchange flotation to boost closed fund business

The Hamburg-based HCI Capital AG fund issuer announced that it will undertake a stock exchange flotation during the first week of October, with the public offering beginning on 19 September.

Aim of the flotation is to boost equity capital to improve the financing of investment property and to support the growth of its activities in closed-end fund conception and launch.

HCI said the listing is being lead managed by Dresdner Kleinwort Wasserstein und Crédit Suisse First Boston, and its shares will be listed on the Frankfurt and Hamburg stock exchanges. pfe

Hamburg's Bankhaus Wölbern to convert to REIT as soon as permissible

The small northern German bank Bankhaus Wölbern announced that it will convert into a Real Estate Investment Trust (REIT) as soon as legislation allowing this comes into effect in Germany.

In a year-end press release, the bank said net profit fell in financial year 2004/2005 to €4.9m from €5.4m in 2003/2004, but its balance sheet expanded by 6.9% to €635m. The main source of earnings was commission earnings, where two-thirds derived from the initiation of closed-end real estate funds.

Separately, the German Association of Closed-End Funds (VGF) announced that Bankhaus Wölbern was, alongside Nordcapital Emissionshaus, one of two new members which had joined recently. Wölbern had become a quality market leader in the issue of closed-end foreign property funds, initially with the highly successful Holland Fund launched in 1993, VGF noted.

The Nordcapital and Wölbern entry brings to four the number of new members gained by VGF since new Chief Executive Eric Romba took full control of the organisation in July. pfe

S&P assigns preliminary credit rating to ABN Amro €25bn covered bond program

Standard & Poor's Ratings Services said it assigned its standard preliminary credit rating to the €25bn covered bond program announced by ABN Amro bank late last month.

ABN Amro's is the first residential mortgage-backed covered bond program set up in the Netherlands. First issuance is expected within the next few weeks. The program is structured so that, unless specified otherwise in the terms and conditions of the series, the covered bonds will achieve a 'AAA' rating from S&P.

This rating reflects the terms of the issuance, structure, cash flow mechanics of the program, and S&P's cash flow analysis to verify that the notes will be repaid under stress test scenarios.

The covered bonds will be direct, senior unsecured, unconditional obligations of ABN Amro and will benefit from an asset-backed guarantee from the bank's Dutch Special Purpose Vehicle, which guarantees the issuer's obligations under the covered bonds. pfe

PFE COMMENT: This is likely to be the first of many such programs covering very considerable component parts of financial institutions' residential credit asset bases. Many other banks, including Netherlands-based counterparts, are eyeing similar programs and we expect a number of announcements over the next few months. Our information indicates that ABN Amro considered including German assets and including Pfandbriefe in the program. The bank eventually decided against it due to the additional complexities required within the German Pfandbrief legislation. Therein, for the next few years at least, lies the rub. Mainly within the context of the newly-created European Covered Bond Council - an offshoot of the European Mortgage Federation in Brussels - Germany will be pressing for its legislation to be absorbed into considerations of EU-wide covered bond guidelines. The lobbying is led by Louis Hagen, Executive Director of the recently renamed German Pfandbrief Association (vdp).

Austria's Immofinanz Immobilien reports record profit for 2004/2005

Austria's listed property company Immofinanz Immobilien Anlagen AG reported that operating profit (EBIT) virtually tripled in its 2004/2005 fiscal year, rising to €309m from €104m in the prior year.

In a release, Immofinanz said annual growth rates were considerably higher than in 2003/2004, and all important earnings and key figures reached new record levels. Earnings before tax rose even to €286m from €93m, and the improvement in earnings was also reflected in a notably higher return on equity which, at 13.4%, was more than double last year's 6.4%. Revenues climbed 125% to €230m compared with €102m in fiscal year 2003/2004.

"The real estate portfolio hurdled a couple of significant marks in the 2004/2005 fiscal year," the release said. The number of properties rose more than threefold to 1,114 from 315 in the prior year. Here the acquisition of two portfolios especially paid off, adding a large number of medium-size properties. Total lettable space owned increased to 4.09m sq.m. from 1.69m, and the fair value of the portfolio nearly doubled to €4.37bn.

The company said good progress so far this year means that it has consolidated its position among the top real estate companies in continental Europe, reaching fifth place in terms of market capitalisation as of 29 July 2005. On the European property share index GPR 15, Immofinanz is the only Austrian company represented. At 7.2% weighting, it is now the third highest-weighted continental European real estate company. pfe

Metro's Praktiker DIY chain sees 'gigantic' interest from foreign bidders

The Düsseldorf-based Metro retailing group is to sell its nationwide chain of Praktiker DIY stores, and the Praktiker head said he welcomes the huge interest in the chain from foreign investors.

Praktiker Chief Executive Wolfgang Werner told the Die Welt newspaper that, despite what he sees as an excess of home improvement stores in the German market, the interest from potential purchasers for the chain has been 'gigantic'. "The investors are knocking down the doors at our parent company," Werner told the newspaper.

In a reference to left-wing politicians' criticism of private equity and opportunity funds as locusts earlier this year, he said, "We have no fear of 'locusts' at all. Quite the contrary."

Praktiker has opened no new stores in recent years, seeing the sector as highly over-populated. "We are experiencing absolute madness in terms of the amount of floor space available. There are simply too many DIY stores," Werner said.

For some time he had been expecting consolidation in the sector and that one or other competitors would withdraw. "However, the pain threshold has obviously not been reached yet," Werner told the newspaper. pfe

Deutsche Bahn to examine flotation of Vivico property company in 2007

Vivico Real Estate GmbH, owned by the German railways and the federal government, said its owners would examine the capital market situation in 2007 and decide whether to go ahead with a privatisation of the company.

At the annual news conference, Chief Executive Dirk Grosse-Wördemann said Vivico intended to work on upgrading all its portfolio of 217 properties by that time, to prepared them for eventual market sale, the Immobilien Zeitung newspaper reported.

Vivico announced net profit of €33.7m last year, and boosted the equity capital ratio to 77% from 52% in 2004. The company is owned 94,99% by the property arm of Deutsche Bahn, while the federal government holds the remainder. Grosse-Wördemann has announced he will step down as chief executive soon. pfe

Germany's Wüstenrot combines two units for new home bank

Germany's sixth largest home mortgage bank Wüstenrot+Württembergische (W&W), based in Ludwigsburg, said it is putting together the activities of two subsidiaries and creating a new 'universal' bank with home loan and construction financing as its core activity.

W&W said in a release the new entity, to be called Wüstenrot Bank AG Pfandbriefbank (WBP), will have a home loan asset base of €10.5bn and employ 414 staff.

It will take over the external refinancing activities of the group and will be headed by Rolf Kornemann as chairman. Kornemann will however step down on 1 July next year and hand over to Wolfgang Maile, the bank said. pfe

PFEPEOPLE PFEPEOPLE PFE

WestInvest has appointed **Gerhard Gminder** from 1 January 2006 as chairman in succession to **Rolf Weert Meinders**, who is retiring... **Günther Kühnlein** is switching to **Vivico** and taking over marketing at the Frankfurt subsidiary.Vivico in Frankfurt manages 16 properties with a combined floor space of 517.000 sq.m... **Niels Fischer** is joining the management team at **Aareal Asset Management** as Chief Operations Officer... **Brigitte van der Jagt** is leaving **CBRE** Investors for personal reasons. **Michael Best** and **Jan Findeisen** will take over at head of the realtor's German GmbH... **ING** has appointed **Pieter Roozenboom** as Chief Operations Officer for **ING Real Estate Investment Management**, **Ido Esman** as Managing Director European Private Clients, and **William Rowson** as Managing Director European Acquisitions... **Hans-Theo Macke** is appointed chairman of **DG HYP** with effect from 1 January 2006. Currently chairman of **Westerwald Bank**, Macke succeeds **Wolf Schumacher** who moved on 1 April to chair **Aareal Bank**... Europe's largest property company **Land Securities** named **Martin Greenslade** as new group finance director to succeed **Andrew Macfarlane**... **British Land** announced that **Nick Ritblat**, son of Chairman **John Ritblat** would leave the board but act as consultant for the next 12 months on alternative strategies for residential assets totalling £292m. He will also take an advisory role in the **UK government**'s **REIT** reflections...**Paul Trip**, Member of the Management Board of **ING Real Estate** is stepping down as of 1 November to accept responsibility for the disappointing results of **Zlote Tarasy** in Poland...**Michael Gerke** has taken over Property, Facility und CRM of the German **ProLogis** portfolio... pfe

Property Finance Europe. c/o easetec, Hainer Weg 13-15, D-60599 Frankfurt am Main. Germany.
Telephone +49 (0) 69 962448-0, or email: business@pfeurope.de
FAX TO: PROPERTY FINANCE EUROPE +49 (0) 69 9624 4890